



Country or Region: Poland

Defense Market in Poland

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Summary

This is an annual update of the defense market assessment for Poland. The sweeping economic and political changes that have transformed Poland since the collapse of communism in 1989 have had significant effects on the Polish defense sector, as it applies to both government and industry. With its entry into NATO in 1999, Poland's enemies of forty years are now its allies. From the ashes of a centrally planned economy, a vibrant free-market has emerged, and the defense industry has had to both change its client base and reorganize itself. The military activities of Poland have aimed at meeting NATO goals. The Polish army is moving away from a draft-based army towards a smaller professional unit better suited to the NATO mission. Poland's membership in NATO has already brought opportunities for U.S. companies in terms of upgrades and adjustment. In addition, Poland became a U.S. close ally in Europe through its support in the international intervention in Iraq and Afghanistan.

Since Poland became a member of the EU on May 1, 2004, all external security matters must comply with the "Common European Security and Defense Policy", which defines external action through the development of military management capability. Poland is the sixth largest country in the EU with a population of nearly 38 million people. Its 1,100-kilometer eastern border is now the longest external border in the European Union.

In April 2003, a tender to supply 48 fighter aircraft for the Polish armed forces was awarded to Lockheed Martin. This deal increased industrial cooperation opportunities for both U.S. and Polish companies in the defense sector. Direct investment in the defense sector includes sub-supply agreements, acquisition of know-how, and training assistance. Incoming streams of new technologies and licenses help modernize the Polish defense industry, enabling its involvement in greater international cooperation. Opportunities for American firms exist mainly in investment, technology transfer, and co-production work.

Receptivity to American products is high due to an affinity toward the United States. American suppliers have an excellent reputation for high quality products, reliability, and technical assistance. However, technological advantage is not the only factor determining success in the market. American companies should focus on educating end-users and other players in the defense sector. A successful exporter should support its agent/representative at trade shows, seminars, and conferences.

Market Overview And Market Trends

Prior to 1989 (since the collapse of communism), the Polish defense industry benefited from many advantages. Companies manufacturing for the defense sector were given absolute priority in the acquisition of raw materials, technology and preferential credits. Also, they were exempt from paying taxes. Now faced with sharply reduced government subsidies, outdated technology and an over employed work force, defense firms in Poland struggle to survive. After 1989, three main factors negatively affected the long-term prospects for weapons production. The first was the collapse of the Warsaw Pact market, which accounted for 80-90 percent of defense sector output. The second was the advent of the new market economy. The third was the shrinking world arms markets, particularly for the generally low-technology weapons that were produced in Poland. In addition, the number of special orders written by the Ministry of Defense has been seriously reduced. The Polish defense industry,

however, still looks to the government for massive assistance. The defense industry believes that, if their products are made to be compatible with NATO standards, they could again become competitive, particularly if quality remains high and the price of the finished product remains low.

Until recently, the Ministry of Treasury, which is responsible for privatization in Poland, tried to bail out the defense industry by locating strategic partners and signing cooperation agreements with international companies. Successive government cabinets have focused on defense industry restructuring as a key element of both industrial and national security policy. The Ministry of Economy initiated a program to restructure and consolidate the defense industry. Under this program, two holding companies were established by the end of 2003. One is PHZ Bumar and the other is the Industrial Development Agency (ARP). Both holdings play a major role in consolidating entities for each group. These companies combined their production capacity and credit resources. At the end of August, 2007 the Council of Ministers accepted new program to further restructure and consolidate the defense industry in year 2007-2012. Under this program, Bumar Group will enlarge. The program is strictly tied up with modernization and restructurization of the Polish armed forces.

The ammunition/rocket/tank group (under PHZ Bumar) includes: ZM Mesko S.A., ZM Dezamet S.A., TM Pressta S.A., Przemyslowe Centrum Optyki S.A., CNPEP Radwar S.A., ZM Tarnow S.A., ZM PZL-Wola S.A., WSK PZL-Warszawa II S.A., ZPS Pionki, ZM Krasnik, ZM Bumar-Labedy S.A., Fabryka Broni Lucznik-Radom, PSO Maskpol S.A., and ZCh Nitro-Chem S.A. PHU Cenrex trading company handles marketing and export for this holding. The aircraft/electronics group (under the ARP) includes: Polskie Zaklady Lotnicze Mielec, WSK PZL-Swidnik S.A., ZR Radmor S.A., and PZL Hydral S.A. PHZ Cenzin trading company handles marketing and export for ARP Group. Also, there are three repair shipyards, thirteen military repair facilities, and eight research and development institutions for the defense/military function. In addition to the above listed companies, there are several small private firms, which are very successful on the Polish market including WB Electronics, Transbit, Wamtechnika, DGT, and Airpol.

We can produce a list of Polish company contacts in the defense industry on request. Please contact our office, U.S. Commercial Service Warsaw, by e-mail at Warsaw.Office.Box@mail.doc.gov or look at our website <http://www.buyusa.gov/poland/en/> for brief instructions on how to order.

The R&D institution cooperating very closely with the ARP Group is the Institute of Aviation in Warsaw. From it's beginning, the Institute was recognized as a leading design, research and development center for Polish governmental organizations and the Polish Aviation Industry, performing many design and research projects and scientific works. The Institute of Aviation is strictly focused on international cooperation, integration with European and worldwide R&D in the area of aerospace and similar high-tech human endeavors. They employ highly experienced scientists and technical staff. Their laboratories are ISO certified and can perform specialized tests and highly accurate measurement.

International cooperation is integral to the development of the Institute of Aviation. Particularly important is their focus on bringing together the research and development programs of new products from both the U.S and European aerospace industries. As such, the Institute of Aviation offers their expertise and diversifies its activities, i.e. specializes in areas, which might be suitable for foreign partners. One of the most effective and mutually profitable forms of international cooperation includes working as design offices, research teams or production centers for high technologies.

The Institute has close ties with U.S. Aerospace firms, including GE and Pratt and Whitney. A good example is the Engineering Design Center, established together with General Electric to provide sophisticated designs for U.S. partners. Moreover, the GE Engine Design Institute is a joint venture with the Polish Institute of Aviation. They are looking for further opportunities to cooperate with American firms in this sector.

Before the changes of 1989, the defense sector in Poland consisted of 150 companies that employed

215,000 people. Today, this sector consists of 23 companies and employs about 30,000 people. Because of their precarious financial situation, Polish defense firms have shown little interest in importing foreign equipment. Before 1991, Poland exported 50% of its military production. Today, it exports only about 13-15% of its military production. The majority of defense exports include ammunition, transportation vehicles, and spare parts. The defense industry continues to search for new export markets, particularly in developing countries and in the Middle East. Many new contacts are being negotiated for the sale of weapons and technical military equipment.

Polish defense companies seek cooperation agreements or joint venture opportunities with foreign defense companies that, combined with the relatively lower cost of production in Poland (particularly tanks, armored vehicles, artillery, ships, aircraft, and helicopters) will be attractive to potential customers. The U.S. company, United Technologies - Pratt & Whitney acquired 85% of the shares in aircraft engine producer WSK Rzeszow. The company has over 6000 Polish employees in its factories in Rzeszow and Kalisz. Pratt & Whitney makes airplane engines in Poland and it is one of the largest aviation companies in the country. The Polish Air Force will fly F-16s with Pratt & Whitney engines assembled in Rzeszow. Another subsidiary of United Technologies Corporation, Sikorsky Aircraft of Hartford, Connecticut made a major strategic investment in Poland. Sikorsky Aircraft Corporation signed an agreement with Polish aircraft maker PZL Mielec to establish the assembly center for International Black Hawk helicopters and key helicopter components. Sikorsky's strategic investment in PZL Mielec will provide funding for factory improvements and tooling to support assembly of the International Black Hawk helicopter and other helicopter component production.

In addition, the Polish defense sector benefits from offset agreements in connection with the tender to supply 48 fighter aircraft for the Polish armed forces, which was awarded to Lockheed Martin in 2003. The direct investment in the defense sector includes sub-supply agreements, acquisition of know-how, and training assistance. Incoming streams of new technologies and licenses helps modernize the Polish defense industry enabling it to be involved in greater international cooperation.

The roll-out of the first Polish F-16 fighter jet produced through the Polish F-16 Peace Sky program took place on September 15, 2006 at Lockheed Martin production facilities in Fort Worth, Texas. The Peace Sky program is the centerpiece of an enduring relationship between Polish and U.S. air forces. These F-16s will provide the foundation of interoperability that will enable them to carry out operations as NATO and coalition partners. The Polish F-16 will be the most advanced fighter aircraft in Europe. "Poland is delighted to be taking delivery of an aircraft that will not only transform our capabilities in the air but also those of our ground troops and the Navy," announced the Polish Minister of Defense, who himself flew in an F-16 on September 14, 2006. Twenty seven of 48 aircraft has been already delivered to Poland.

For more information about offset related business please contact the following contacts at Lockheed Martin Aeronautics Company:

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The recently proposed deployment of a U.S. missile defense site on the territory of Poland and the Czech Republic has become central to the security debate in Poland and the region. Concerns have been voiced that the site could lead to confrontation with Russia, or make Poland and Central Europe a target for rogue

states and terrorist attacks. United States is assuring Poland and its European allies that the anti-missile defense shield offers advanced security features that stretch beyond the recipient countries and offer protection that the whole continent can benefit from. An installation comprised of radar in the Czech Republic and missile interceptors in Poland does not have the geographic and technical capacity to pose any threat to Russia. The ultimate goal of the project is to deter a potential nuclear threat coming from the Middle East.

The overall cost of the Czech and Polish facilities is estimated by the U.S. Missile Defense Agency to be approximately 3-3.5 billion USD, of which 700-900 USD million in contracts is planned to go to local firms. The interceptor installations in Poland are estimated to cost about 2.5 billion USD, while the rest of the funds would be used for the related radar facility in the Czech Republic. However, additional infrastructure has not been included in the total costs yet. The construction of the sites is expected to start in 2008 and the initial capabilities will be available by 2011. Full operational capability is expected by 2013. The future of the project remains dependent on the final phase of negotiations with the Polish and Czech governments.

Statistical Data

Poland's military ranks have decreased from 450,000 in 1989 to less than 150,000. Poland's military is traditionally land force heavy. Sixty one percent is army, 20% is air force, 9% is navy, and 10% other troops. Poland's military is continuously undergoing changes - all designed to restructure itself into a more capable and mobile force compatible with NATO and EU troops. It is changing every area of operation: force structure, staff organizations, training programs, doctrine, security procedures, etc. However, the changes in Poland's military and the reorganization plan for the defense industry must compete with other reforms that the state budget must also finance.

Spending on defense in Poland in 2003 - 2007 (% of GDP):

	2003	2004	2005	2006	2007
Defense Spending/GDP	1.98	1.95	1.95	1.95	1.97

In 2007, additional sources of revenue from the following resource are expected to increase the amount to about USD 208 million (PLN 624.5 million):

Armed Forces Modernization Fund – USD 20.9 million (PLN 62.7 million)

Privatization of defense companies – USD 3.3 million (PLN 9.8 million)

Ministry of Science and Information Technology (R&D in defense) – USD 40.3 (PLN 121 million)

NSIP Investment – USD 111 million (PLN 333.1 million)

FMF Program – USD 30.4 million (PLN 91.2 million)

IMET grants – USD 2 million (PLN 6.1 million)

CTFP Program – USD 0.17 million (PLN 0.5 million)

In 2007, the Polish government allocated nearly USD 7.2 billion (PLN 21.58 billion), for defense expenditures of which 23% for modernization of the army, hardware purchase and infrastructure maintenance. Forty five percent will be spent on salaries and pensions. The modernization of the Polish army includes improvement of troop capacity and mobility and improvement of air defense system. The modernization project involves purchase of military equipment (armored transportation vehicles and military transportation aircraft) and ammunition (armor piercing guided missile and ship to ship missile system for the Polish Navy). NATO force goal requirements are also driving equipment-related decisions, ranging from modernization of Mi-24 helicopters, and Mi-8 and Mi-17 transport aircrafts.

Poland receives one third of NATO funds allocated for the development of defense infrastructure projects. By the end of 2009, the value of NATO financed projects in Poland will reach PLN 2.5 billion (USD 781 million). Also, Poland has one of the largest IMET programs in EUCOM and is one of top 10 worldwide. Poland has trained over 2200 military and civilian students since 1992 using IMET, FMS and CTFP. In FY2006 Poland sent 77 military students to be trained in the U.S. and 85 students were projected for FY2007. These programs help reform defense establishments of Poland and build Poland's capacity to conduct peace and stability operations. Poland has a state Partnership Program with the Illinois National Guard.

Market Access And Market Entry

See our market research report titled "Military Procurement in Poland".

Trade Shows/Events

Participation in trade fairs, conferences and seminars is a very effective avenue for promotion in the defense/military sector in Poland.

The MSPO International Defense Industry Exhibition is the largest annual event for the defense and security industries in Central and Eastern Europe attracting buyers from throughout the region and represents an excellent venue for U.S. companies in these sectors. It is held each year in Kielce (south east Poland) at the beginning of September. Participation in the MSPO trade show and accompanying conferences and seminars is a very effective avenue for promotion in Poland and its neighbors. Each year, CS Warsaw organizes activities for U.S. companies, typically including a reception hosted by the U.S. Ambassador at the Show.

Attended by Polish Deputy Prime Minister Przemyslaw Gosiewski, Polish Defense Minister Aleksander Szczyglo, Assistant Secretary of the U.S. Army for Acquisition, Logistics, and Technology Claude M.

Bolton, Defense Department Program Executive Officers, and other senior leaders of the Polish and U.S. armed forces, the MSPO 2007 was a great success. It showed vast potential - 364 exhibitors from 24 countries including 31 American exhibitors, and over 22 foreign official delegations. The "Lead Nation" status in the 2007 edition of this annual event and the American Pavilion significantly raised U.S. companies' visibility and increased the chances of their overall success. American exhibitors included

Lockheed Martin, Sikorsky Aircraft Corporation, AAI Corporation, a subsidiary of United Industrial Corporation, Raytheon International, AM General Corporation, Harris Corporation, BOEING Company, SAAB Training USA, Motorola, Agility Defense & Government Services Logistics, Data Link Solutions Division of Rockwell Collins, Textron Systems, Fisher Labs and Night Owl Optics, ITT Corporation Electronic Systems, ICx Technologies, JLG Industries, Inc., TSSI - Tactical & Survival Specialties, Inc., Fluor, Nivisys Industries, LLC, SAIC, Complete Parachute Solutions, Inc., Tactical Communications

Systems, A Division of Ultra Electronics Canada Defense Inc., General Dynamics, Honeywell, UTC Pratt & Whitney, Missile Defense Agency, U.S. Department of Defense - Visual Information Services Division, and U.S. Army Program Executive Office Soldier. CS Warsaw would like to see even more American companies participating in MSPO 2008.

The next show will take place from September 8-11, 2008.

The MSPO show organizer is:

Targi Kielce
ul. Zakladowa 1
25-672 Kielce, Poland
<http://www.msपो.pl>
Tel: +48 41 365 1298
Fax: +48 41 365 1279
Contact person: Ms. Katarzyna Prostak, MSPO Project Director
E-mail: prostak.k@targikielce.pl

To reserve a space at MSPO 2008 you may contact the MSPO organizer directly or private U.S. Show Organizer:

Kallman Worldwide, Inc.
4 North Street, Suite 800
Waldwick, New Jersey 07463, USA
Tel: +1 202 251 2600
Fax: +1 201 251 2760
www.kallman.com
Contact: Thomas Kallman, President
E-mail: tk@kallman.com

The other important exhibitions in this sector are:

INTERNATIONAL AIR SHOW, held biannually in Radom. The next show will next take place in 2009.
The organizer of this show is:

Targi Kielce
ul. Zakladowa 1
25-672 Kielce, Poland
Contact: Malgorzata Mlynarczyk, Radom Air Show Project Manager
Tel: +48/41 365-1294

Fax: +48/41 365-1279
E-mail: mlynarczyk.m@targikielce.pl

BALT-MILITARY-EXPO- International Fair for Navy, Border Guards and Police, held biannually in Gdansk. The next show will be held June 25-27, 2008. The show organizer is as follows:

Miedzynarodowe Targi Gdanskie S.A.

ul. Beniowskiego 5

80-383 Gdansk, Poland

Tel: +48/58 554-9328

Fax: +48/58 552-2243

<http://www.mtgsa.pl/e4u.php/14.en>

E-mail: military@mtgsa.com.pl

BALT-EXPO - International Maritime Exhibition, held biannually in Gdansk. The nearest show will be held at the beginning of September 2009. The show organizer is as follows:

Zarząd Targów Warszawskich S.A.

ul. Puławska 12a

02-566 Warszawa, Poland

Tel: +48/22 849-60-06 ext. 109

Fax: +48/22 849-35-84

<http://www.ztw.pl/>

E-mail: ztw@ztw.pl

Key Contacts

Ministerstwo Obrony Narodowej

(Ministry of National Defense)

<http://www.mon.gov.pl/index.php?lang=2>

- Minister Aleksander Szczygło *
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- Deputy Minister - Secretary of State Bartłomiej Grabski *
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- Departament Polityki Zbrojeniowej
(Defense Policy Department)
Al. Niepodległości 218
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Tel: +48/22 684-6607 or 845-0488
Fax: +48/22 6874-037 or 6874 789
Contact: Gen. bryg. Andrzej Duks, Director of Defense Policy Department *
E-mail: a.duks@mon.gov.pl

* Might change due to the elections in Poland on October 21, 2007

Polska Izba Producentów na Rzecz Obronności Kraju

(Polish Chamber of Defense Industry)

ul. Fort Wola 22

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Al. Krakowska 110/114
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Fax: +48/22 846-4432
www.ilot.edu.pl
E-mail: ilot@ilot.edu.pl
Contact: Mr. Witold Wisniowski, General Manager or Mr. Wojciech Podkanski, Scientific Manager

Opportunities For Profile Building

The U.S. Commercial Service Warsaw offers a wide range of products and services for American companies seeking business partners in Poland. These services include market information, assessment of an American firm's product sales potential, identification of potential representatives, individual counseling, trade missions, and scheduling appointments with Polish firms and organizations, etc.

Please visit our website for additional information on the products and services provided by our office at <http://www.buyusa.gov/poland/en/>

General information relating to market accessibility and doing business in Poland can be found in the Country Commercial Guide. The Country Commercial Guide presents a comprehensive overview of Poland's commercial environment utilizing economic, political, and market analyses. The Country Commercial Guide is prepared annually at American Embassy Warsaw through the concerted efforts of several U.S. government agencies. You may download the Poland Country Commercial Guide in pdf format from our web site at the following address: http://www.buyusa.gov/poland/en/poland_ccg.html

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For More Information

Please contact the following for additional information on defense related business in Poland:

U.S. Commercial Service
American Embassy Warsaw, Poland

Mailing address (from the U.S.)
American Embassy Warsaw/FCS

Department of State
Washington, DC 20521

Street address:
U.S. Commercial Service
IPC Business Center
ul. Poznanska 2/4
00-680 Warsaw, Poland
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Office of Defense Cooperation
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